



September 29, 1004

Dear Independent Review Committee

Thank you very much for your willingness to look at the effectiveness and efficiency of state trust fund investments. While that assignment may sound rather mundane at first blush, your work and recommendations will, in fact, shape the future of state lands for decades to come. The potential of these nearly three million acres is incredible. The benefits are both real and significant. They include economic, social and ecological components such as money for schools, counties and other beneficiaries, clean water, wildlife habitat jobs, and nine million annual recreational visits to state trust lands.

These are benefits to all the people of Washington. Our working landscapes can provide over \$2.3 billion in gross revenues over the next decade but it takes investments to yield such returns. Without sufficient levels of investments, the productive capacities of the trusts cannot be realized.

Our best analysis of business costs and revenue projections indicate that we will not have the necessary management fund cash flow to support the levels of revenue the beneficiaries are entitled to. As overall revenue declines, so does the management fund. Without a dramatic increase in timber prices – and that is not predicted any time soon – the management funds, and consequently trust revenue, both spiral downward through the foreseeable future. We can't let that happen --- the future hangs in a delicate balance.

Prior to my term, the department had proposed legislation that would have increased the amount withheld for management by 40%. I asked the Legislature in 2001 to not act on the proposal, committing to a full evaluation to verify if there were alternatives.

Since that time, I have continuously evaluated our trust expenditures and made significant changes. Since that time, I have reduced expenditures to the lowest level since 1971, reduced employment by over two hundred positions and increased agency efficiencies, including the productivity of timber sales by over 40%. Nevertheless, there are macro-economic forces that have reduced revenue and create a future revenue picture unlike the long-term historical patterns. The results are a continued decline in the management fund balances. As you will see in the accompanying briefing material, without a solution the funds are predicted to go below prudent reserves and create "deficit spending", something not possible in state government.

*Over the next three months, I am asking that you evaluate how I am spending trust assets. To provide a focus, I have developed the attached "Charter for an Independent Evaluation of the Effectiveness and Efficiency of State Trust Fund Investment." As noted in the Charter, the central question is: **Are there changes that would result in improved revenues or cost savings sufficient to fund current management and the implementation of the Board of Natural Resources' directions?***

I do not presume that an increase in the management fund percentage must occur. If there are opportunities that I have missed to make material changes in our daily operations or if there are other paths that can fund the necessary investments, I welcome your ideas.



The enclosed briefing material is a first step to providing you with important information. This and other information that you or the trust beneficiaries may request should assist you in your deliberations. After your review, I am asking for a Final Independent Review Committee Report by early December that outlines your findings and recommendations. This becomes your "answer" to the central question that I posed. While ambitious, I sense that we can do this with three Committee meetings.

The first meeting will be in Olympia at the Olympia Center at 222 Columbia St NW, Room 101 and 102 on October 6 from 10:00 am - 3:00 pm. Lunch will be provided. The remaining two meetings will be in the Natural Resources Building, Room 172 from 10:00 am - 3:00 pm on October 22 and November 17.

I have asked Jack Hulsey, Operations Manager for the Department of Natural Resources, to work full-time on the Independent Review. He will be your primary contact to answer process or substantive questions. Jack can be reached at 360-902-1401 or email at jack.hulsey@wadnr.gov.

For your reference, I am also enclosing the following:

1. Independent Review Committee Charter;
2. Briefing Material, Volume I;
3. Initial questions from the beneficiaries on this topic; and
4. 2003 DNR Annual Report

Washington State is blessed with an endowment of nearly three million acres of state trust lands. These lands sustain our schools and institutions, our waters and wildlife habitat, and our culture and community viability across the state. These precious benefits can continue indefinitely with the right care and appropriate management.

I need your help in creating a new future.

Sincerely,
Doug Sutherland
Commissioner of Public Lands

Enclosures